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10 July 2000

Dr. David Cornelius
Office of the Regulator-General, Victoria
1st Floor
35 Spring Street
Melbourne VIC 3000

Dear Dr. Cornelius:

I am pleased to enclose our submission to the consultation paper, **Electricity Retail Competition For Small Customers – Retailer of Last Resort**.

The submission has already been forwarded electronically and you have our permission to post it on your web site.

The board of Co-operative Energy Ltd met today and welcomes the distribution pricing forums being organised by the Office.

In co-operation:

David Griffiths
Secretary

Last Resort Competition

Electricity Retail Competition For Small Consumers – Retailer of Last Resort (June 2000)

ORG's approach to a Retailer of Last Resort scheme is flawed because it has artificially separated Minimum Standards from Last Resort Retailer – when they are intrinsically linked.

In the USA a default service has various names e.g. default service, standard offer, shopping credits and provider of last resort. The whole point is to create a service for non-choosers and for those consumers who lose their retailer in the event of the retailer exiting the market.

The public purpose of a default service, therefore, would be a safety net for consumers, a vehicle to deliver price reductions, a provider of last resort and low cost aggregation.

A Retailer of Last Resort is critical to the functioning of the electricity market and it is pleasing that the consultation paper accepts that it "is a necessary part of the framework for a competitive electricity supply industry" but, unfortunately, over-stated given ORG's narrow approach to Retailer of Last Resort.

The issue, however, is not simply who should be the retailer of last resort for those consumers whose retailer exits the market. It is also necessary to set the rates and terms and conditions for default service i.e. minimum standards. The design of a default service can facilitate or undermine competition.

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If all customers who do not choose a retailer remain with the incumbent retailer, for example, this is tantamount to awarding a majority share of the market to the only retailers consumers have dealt with

In 1.1 ORG states that the issue of retailer of last resort needs to be considered "for the purpose of making competition effective, and managing the transition to a market that is in practice fully competitive." The latter part of this comment is disturbing, however, because of the implication that a retailer of last resort is only necessary in a transition period and that there is a possibility of achieving perfect competition. Perfect competition is a myth and it will always be necessary to have retailer of last resort provision.

In 1.2 ORG states its objectives for full retail competition as ensuring that

- Customers benefit from full retail competition through an improved mix of price and service. In particular, customers should benefit from the abolition of franchise fees and any reduction in wholesale market prices following the end of the vesting contracts put in place prior to privatisation;

- Competition in the retail market is both robust and effective, including with respect to the entry and participation of independent retailers, in order to ensure the potential benefits of retail contestability are realised by customers; and
- Costs involved in implementing full retail contestability for small customers are consistent with the delivery of net benefits to those customers through effective retail competition.

In 1.2 it is also stated that ORG has identified two criteria necessary for the achievement of these objectives:

- eliminate any material barriers within Victoria to customer choice of retailer;
- enable ease of market entry of competing retailers;
- minimise costs as far as practicable;
- provide for equitable treatment between retailers;
- provide practical opportunities for market and technological evolution;
- ensure that the solutions are technically and economically efficient;
- enable cost reflectivity and price signalling to industry participants;
- deliver the project by 1 January 2001; and
- ensure as far as possible that the retail trading arrangements in Victoria are consistent with arrangements for full retail competition in other jurisdictions.

The key challenge is how to protect small consumers while developing competition in the electric industry. Fundamental to this is enabling all consumers to benefit with competition – rather than protecting small consumers from competition.

It is unfortunate that ORG's principles are negatively stated but this probably reflects paternalistic assumptions about small consumers. The principles should have been stated positively e.g.

- Competition in the market should be encouraged and small consumer participation facilitated by consumers being well informed about their rights and obligations in the open market with all information provided accessible, useful and clear.
- Competition is not incompatible with access to supply for all small consumers and, in particular, measures should be developed to encourage low income participation in the market and ensure that those in financial difficulty have a range of flexible payment options.

This restatement also recognises “consumers” rather than “customers.” The use of the term “customers” is, however, paternalistic and inappropriate.

Co-operative Energy Ltd supports the development of a code of minimum standards to protect all small consumers. The minimum standards should be inclusive and should not be limited in their scope, application and targeting.

The basis for minimum standards should be protecting the interests of small consumers – not a balancing of interests between suppliers and consumers. While there are interests to be balanced in developing minimum standards, the primary purpose of the standards should be to protect the interests of all small consumers. This does not, however, assume that ORG represents consumers. It is the minimum standards that should constitute the price and other terms for default consumers.

The two key principles stated by OR, however, are insufficient for their effectiveness depends on a judgement about what is “well informed”, what “rights and obligations” and what is “accessible, useful and clear.” Furthermore, it is important to emphasise the importance of access to supply for “customers in financial difficulty” but that access to supply is an issue for all small consumers.

There are two broad options for the provision of a default service:

- The incumbent retailer.
- An auction where one or more suppliers provide the service.

ORG is proposing to assign the initial retailer of last resort to the host Victorian retailers – defined as the existing holders of franchise retail licences in the five Victorian DB's. But, the, this is within the narrow definition of who is affected by a Last Resort Default Service. As proposed by ORG there are problems with the incumbent retailer becoming the default service provider.

First, it means that the incumbent retailer maintains an incumbency advantage over other retailers – an advantage that may not be overcome once it is in place.

Second, it perpetuates the problem of distributors also being retailers and the incumbency marketing opportunities this creates – despite ring-fencing arrangements.

It is preferable that there be a market-based solution for the provision of default service – based on a bidding process to pick the providers. Massachusetts Nevada and Maine restructuring legislation requires competitive process to select default providers. In Pennsylvania 20% will be subject to bid by 2001. This approach should have three advantages:

- It relies on the market rather than bureaucratic processes.
- Facilitates competitive supplier enter into the market.
- Facilitates the provision of default services at the lowest cost.

Given the broader approach to Last Resort Service, the problem of incumbency is even more serious.

In 4.3 ORG discusses terms and conditions of supply and sale and notes that ORG has the legal authority to determine the terms and conditions applicable to a Retailer of Last Resort scheme, and to publish those terms and conditions. The discussion is not placed within the context of Minimum Standards also being developed by ORG.

Retailers should be asked to bid the price and other terms under which they would be prepared to serve consumers under a Retailer of Last Resort scheme.

In conclusion, there should not be a specific scheme for consumers whose retailer exits from the market. Instead, a successful scheme should be in place for all consumers – including those whose retailer exits. The basis for the terms would be the minimum standards. What ORG should do, therefore, is link its minimum standards with Retailer of Last Resort.

This opens up the broader issue of who will provide supply for the majority of small consumers who decide not to switch from when contestability begins to open for the remaining small consumers from 1 January 2001. This is why the concept of a Last Resort Service is crucial. It needs to be examined in the context of simultaneously promoting competition and consumer protection. Neither is served well, if it is assumed that small consumers will stay with their incumbent retailer until they choose to switch. This provides the incumbent retailers with a competitive advantage.

10 July 2000

ICA Statement on the Co-operative Identity

Definition

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Values

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles

The cooperative principles are guidelines by which cooperatives put their values into practice.

1st Principle: Voluntary and Open Membership Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting

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members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5th Principle: Education, Training and Information Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of cooperation.

6th Principle: Cooperation among Cooperatives Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community Cooperatives work for the sustainable development of their communities through policies approved by their members.

Electric Co-ops USA

Electric co-operatives in the USA are member-owned electric utility businesses, incorporated under the laws of the states in which they operate, established to provide at-cost electric service and are governed by boards of directors elected by members.

- 875 electric distribution and retailing co-operatives serve 32 million people in 46 states.
- 60 generation & transmission co-operatives are owned by their member distribution and retailing co-operatives.
- Electric co-operatives serve 11% of the nation's population.
- Electric co-operatives own and maintain nearly 45% of the electric distribution lines in the USA
- Electric co-operative assets exceeded \$62 billion USA in 1997.
- Co-operatives serve an average of 5.8 consumers per mile of line.

Many electric co-operatives are involved in community development and revitalization projects e.g.

- Small business development
- Job creation
- Improvement and/or management of water and sewer systems
- Assistance in the delivery of health care
- Assistance in the delivery of educational services

In 1997 there were 3190 electric utilities in the USA:

- 935 co-operatively owned
- 242 investor owned
- 2013 publicly owned

The NRECA has been involved in the following formations:

- 1954 National Telephone Cooperative Association
- 1969 National Rural Utilities Cooperative Finance Corporation
- 1986 National Rural Telecommunications Cooperative
- 1987 National Rural Health Network